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# **A Tale of Tar and Feathering: The Retail Price Inventory Method and the Englishman**

Ingrid Jeacle\*

*The Management School, University of Edinburgh, 50 George Square, Edinburgh*

*EH8 9JY, Scotland, UK*

Eamonn Walsh

*Smurfit Graduate Business School, University College Dublin, Carysfort Avenue,*

*Blackrock, Dublin, Ireland*

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\* Corresponding author: tel.: + 44-131-6508339; fax: + 44-131-6508337. E-mail address: [ingrid.jeacle@ed.ac.uk](mailto:ingrid.jeacle@ed.ac.uk)

# **A Tale of Tar and Feathering: The Retail Price Inventory Method and the Englishman**

## **Abstract**

This paper examines the implementation and operation of a simple method of inventory valuation: the retail price inventory method. Previous research has examined the method's widespread adoption by US department stores during the 1920s. In particular, attention has focused on the disciplinary properties of the method and the creation of visibilities which recast power relations within the store. This paper attempts to extend existing scholarly enquiry by crossing the Atlantic to follow the practical adoption of the method by an Irish department store in the 1930s. The case reveals the extent of employee resistance to the method's adoption, culminating in a physical attack on the accountant employed with its execution. More importantly however, implemented incorrectly, the method failed to deliver the promised surveillance role, but instead yielded an unanticipated consequence. It revealed the gross profitability of the retail component of store trade and hence supported a managerial initiative to expand this side of business activities to the eventual detriment of the former resistant departmental buyers. The paper therefore acknowledges the broader role of a seemingly neutral accounting technique and reinforces the importance of recognising the organisational context of accounting practice.

# **A Tale of Tar and Feathering: The Retail Price Inventory Method and the Englishman**

## **Introduction**

Our understanding of accounting and the social, arising from investigations of accounting's employment within the factory (Miller & O'Leary, 1987; Walsh & Stewart, 1993), the railroads (Hoskin & Macve, 1988), and the household (Walker, 1998), has been further extended by recent work within an alternative setting, the department store (Walsh & Jeacle, 2003). Seeking to consider accounting's history within the realm of consumption, the latter authors attempted to supplement an existing body of knowledge by broadening the conception of the social to incorporate the world of the consumer. In particular, their study examined a simple inventory valuation method (retail price inventory method) commonly adopted by US department stores during the 1920s. The department store, generally accredited as a key site in the creation of a consumer culture<sup>1</sup>, presented the perfect stage on which to explore the role of accounting within the world of the consumer.

The objective of this paper is to examine the retail price inventory method in *practical* operation. We hope that a detailed exploration of the attributes of the method within a real organisational setting will provide a deeper understanding of how accounting intertwines with the organisational (Hopwood, 1983). Walsh & Jeacle's (2003) examination of the method was at a generally abstract level and also employed a predominantly US perspective. The rapid upsurge in the use of the method

by US stores during the 1920s, combined with a rich discourse on its properties in the books, journals and minutes of trade association meetings of the era, proved a convincing rationale for this country specific perspective. In this paper however, we cross the Atlantic to observe the method's practical implementation in a Dublin (Ireland) department store.

The remainder of the paper is organised as follows. To provide a backdrop to our investigations, we first introduce the department store and outline the managerial revolution which occurred during the early twentieth century within this organisational form. This discussion is located within the context of the scientific management movement more generally. Such a synopsis is useful as the retail price inventory method, which forms the focus of our study, rose to prominence when applying the principles of scientific management to retail organisations. In the following section, we turn our attention directly to the retail price inventory method. We review the technical properties of the method and its advantages over traditional cost methods of inventory valuation. More importantly, we highlight the disciplinary properties of the method in revealing buying errors, a property which established the method as an important tool of managerial control during this period. This discussion is framed within a Foucauldian theoretical framework. We then examine the operation of the method in practice by presenting a case study of its adoption in an Irish department store and revealing the unanticipated outcome of its implementation. The concluding section considers the insights offered by the case in furthering our understanding of how accounting operates within its organisational context.

## **The Department Store: A New Forum for Scientific Management**

The US department store had reached its golden era by the turn of the twentieth century. It was a vast emporium, using innovative marketing practices and offering a lavish range of goods and extensive customer facilities in a magnificently opulent setting.<sup>2</sup> By the 1920s however, a number of crises threatened its existence, including: a national economic depression, a declining wholesale trade (Ferry, 1960), poor operating performance (Copeland, 1921; Emmet, 1930; Guernsey, 1929; Holiner, 1920; Katz, 1929), and competition from the new low cost chain stores (Dartnell, 1931; Report of the Committee on Recent Economic Changes, 1929). Department store management responded by introducing new principles of scientific retail management (McNair, 1931; Monod, 1986; Nystrom, 1925; Osgood, 1925; Schacter, 1930).

It is perhaps not surprising that retailers had turned to scientific management as a solution to their troubles. It was, after all, the ‘fashion’ of the era. The early decades of the twentieth century were witness to a significant discourse on national efficiency in the US generally (Haber, 1964). Foremost among the advocates of efficiency as a key to enhanced profitability was the engineer Frederick Taylor. His 1911 publication *The Principles of Scientific Management* sought to introduce procedures to ensure the systematic elimination of waste on the factory floor. These entailed the use of job analysis, norm based standards, differential piece rates and an array of measuring techniques (Aitken, 1960). As Merkle (1980, p.2) observes, scientific management was “not a single invention, but a series of tools, methods, and organizational arrangements”. Equally, scientific management was not the invention of a single individual. Although it is generally Taylor that is accorded the title of

‘father’ of scientific management, it is important to note that his work was influenced by the initiatives of earlier scientists and engineers, such as Charles Babbage, the British mathematician and H. R. Towne, a president of the American Society of Mechanical Engineers. In addition, Taylor’s colleagues, Henry Laurence Gantt and Frank and Lillian Gilbreth, were also significant actors in the unfolding drama (Alford, 1972; Clark, 1952; Yost, 1949). In fact, these three parties formed “the triangular foundation on which the full science of management was built” (Urwick, 1945, p.126). Others fuelled the debate. Harrington Emerson’s 1919 study, *Efficiency as a Basis for Operation and Wages*, stressed the importance of collaboration between engineers and accountants/economists, whilst Morris Cooke, another significant commentator of the era, extended scientific management principles beyond the factory to inform governmental and educational reform. Indeed, Taylor (1911, p.8) himself, had stressed the contribution of his principles beyond the factory floor:

It is hoped, however, that it will be clear ... that the same principles can be applied with equal force to all social activities: to the management of our homes; the management of our farms; the management of the business our tradesmen, large and small; of our churches, our philanthropic institutions, our universities, and our governmental departments.

Retailing was one such new arena. During the early decades of the twentieth century, department store management eagerly embraced these new managerial practices and rigorously implemented them on their own ‘shop floor’. A scientific approach to expense control, overhead control, credit control and all other aspects of retailing began to be widely discussed and disseminated through newly formed

national trade and research associations: the National Retail Dry Goods Association (NRDGA) was one of the largest of such US retail trade associations (Pasdermadjian, 1954).

The store buyers, who also acted as heads of their department, were a prime target of these new ‘scientific’ reforms. Previously holding the most dominant and powerful position within the store (Emmet & Jeuck, 1950; Chandler & Daems, 1979; Hower, 1943), the buyer’s established mode of management was deemed erratic and chaotic in comparison with the perceived accuracy and rationality of the new methods (Dibrell, 1925; Godley & Kaylin, 1930; Guernsey, 1929). Gradually the authority of the buyer was eroded. New specialists in functions such as marketing, advertising, human resource management and credit control came to occupy the positions which had traditionally been under the sole rule of the buyer (Merchandise Manager’ Division (NRDGA), 1931). The merchandise manager was one such specialist who emerged within the organisation (Lancaster, 1995). The merchandise manager was concerned with the overall presentation of the store. Such was the competition among store buyers that they often pursued a marketing strategy, which although beneficial to their own department, may have been to the detriment of the store as a whole (Benson, 1986). The role of the merchandise manager was to limit the freedom of the buyer in this regard by overseeing a more unified approach to merchandising. S/he created an ensemble of goods, from various departments, to construct a coherent store image which was to become a familiar constituent of twenty first century shopping. Another new position which rose to prominence was that of store controller (financial controller). His knowledge of an array of accounting technologies provided core insights into store operations and transformed his image from that of lowly bookkeeper to powerful gatekeeper of operating knowledge (Mazur, 1927; Brown,



1922). The retail price inventory method was one such technology in the new arsenal of scientific management. The following section outlines the advantages of the method's deployment and its potential as a disciplinary tool.

### **The Retail Price Inventory Method: A Disciplinary Tool**

The retail price inventory method is a method of inventory valuation which uses retail price rather than cost price for inventory valuation purposes. Prior to the advent of the retail price inventory method, department stores valued inventories only at cost price. An inventory count would place on an annual or semi-annual basis and it was at this stage that an inventory valuation (at cost price) was determined for every department and subsequently the gross profitability of each was computed. The adoption of the retail price inventory method however, offered a number of benefits over the traditional cost method of valuation.

One useful advantage was that it eliminated the need for a time consuming physical inventory count in order to estimate a closing inventory (Ernst, 1913, Katz, 1920; Greene, 1924; Madden, 1927). The closing inventory (at retail price) was easily estimated by subtracting sales for the period from the sum of opening inventory (at retail price) and purchases for the period (at retail price). Adjustments were made for any price revisions such as sales discounts. This ease of estimation of the closing inventory allowed the preparation of a department's gross profit at any point in time and therefore facilitated regular departmental performance evaluation (Godley & Kaylin, 1930; Vogt, 1932).

The retail price inventory method was also useful in revealing inventory loss due to theft. This was revealed whenever a physical inventory count took place. Any

difference between the book figure for inventory and that figure revealed by the physical count represented inventory loss due to theft or spoilage (Freudenthal, 1925). This difference was referred to in the trade as 'shrinkage'. The accuracy of the shrinkage figure however, was dependent on the accuracy of the book figures. The efficiency of the store's bookkeeping system in ensuring that the book figures were correctly updated for all price adjustments was an essential ingredient in the identification of shrinkage.

However, perhaps one of the most interesting benefits which the retail price inventory method bestowed on its adopters was an insight into the behaviour of the departmental buyer. The method can be viewed as a powerful surveillance tool in Foucauldian terms. However, before outlining such disciplinary properties of the method, it is useful to introduce at this juncture the key tenets of the theoretical framework which informs our analysis.

Born in 1927, the French philosopher Michel Foucault occupied the position of Professor of the History of Thought at the College de France from 1970 until his death in 1984 (Rabinow, 1986, p.23). Whilst the complexity of his work defies simplistic categorisation, commentators have generally resorted to grouping his writings into three broad chronological phases: the archaeological period, the genealogical period and the ethical period (Burrell, 1988; Drefus and Rabinow, 1982; Knights, 1992). It is Foucault's genealogical investigations which have been of most interest to accounting historians. The genealogical approach rejects "the enlightenment idea that history unfolds in a unilinear and 'progressive' manner" (Knights, 1992, p.517). "Thus, genealogy is opposed to traditional history and the search for underlying laws and finalities" (Burrell, 1988, p.224). In this phase of his work, Foucault was concerned with the way in which power, knowledge and the body

inter-relate (Dreyfus & Rabinow, 1982). For example, in *Discipline and Punish* (Foucault, 1979) he examined the prison as one site “for diagnosing power-relationships which infect man’s body” (Stewart, 1992, p.62). Foucault traced the shift from what he regarded as ‘traditional’ to ‘disciplinary’ modes of domination: from bodily torture to more subtle forms of institutional punishment. He employed the notion of Jeremy Bentham’s Panopticon as a means by which disciplinary power could be exercised: an observation tower from which inmates could be subject to continual surveillance. Through such hierarchical observation knowledge of the body and power over it become intertwined (Foucault, 1979, p.170). Each prison inmate holds an assigned position arranged to facilitate his surveillance; each individual becomes located in time and space around whom records are kept and evaluations made. The consequent visibility of each individual allows identification of the ‘deviant’ while at the same time ‘normalizes’ the rest of the population (Foucault, 1979, p.177).

Foucault’s work has implications far beyond the prison walls. It should be obvious, even from the above cursory review, how malleable Foucauldian thinking can be for furthering our understanding of accounting. Several scholars (Hopwood, 1987; Hoskin & Macve, 1986, 1988; Loft, 1986; Miller & O’Leary, 1987; Walsh & Stewart, 1993) have invoked Foucault’s notion of disciplinary power and shown how it can be usefully employed to embrace management accounting practice. Viewed as an instrument of power-knowledge, accounting, according to Foucauldian scholars, has a significant surveillance role within the organisation. Even the anticipation of being monitored has the requisite effect on behaviour, encouraging an internalised self-discipline. Whilst the repressive nature of such disciplinary power may be clearly evident, it can alternatively be viewed in a positive light: “indeed the most pervasive

power is that which makes its subjects cooperate and connive in their subjection to it” (Hoskin & Macve, 1986, p.106).

The retail price inventory method can be regarded as another example of a Foucauldian disciplinary tool. Once implemented, the method revealed buyer markdowns (price reductions), a useful indicator of poor buying. Under the cost method a buyer could simply hide any losses on markdowns within his total annual departmental profit (Katz, 1923). Under the retail price inventory method however, no such deception was possible. All markdowns were recorded and became knowable. Poor buying decisions were therefore rendered instantly visible. Consequently, the method was endowed with disciplinary properties which bestowed on store management the power of observation. Management could readily identify the ‘good’ versus ‘bad’ buyers according to the level of markdown they recorded. The buyer with high levels of recorded markdowns became, in Foucauldian terms, the deviant, the exception to the norm. In this manner, the visibilities which the retail price inventory method created encompassed a disciplinary potential to curb the often autocratic power of the store buyer. It is important to note however, that the successful deployment of the retail price inventory method as a disciplinary tool depended on the establishment of a marking room which was run independently from the departmental buyer (Ruffner, 1921; Brisco & Wingate, 1925). The marking room marked the price on all goods and carried out all subsequent adjustments to this price (markups or markdowns). This procedure ensured that the book (office) figures for inventory were correctly updated and that all markdowns were captured and documented (Kleinhaus, 1932). The ability to introduce such a system of accountability is a key requisite in ensuring that the retail price inventory method reached its full disciplinary potential in practice.

In the following section we examine the practical operation of the retail price inventory method in Arnotts Department Store in Dublin (Ireland) during the late 1930s. Our purpose is to investigate the interrelations between an accounting technique and broader organisational changes at a single site. In addition, we attempt to inform and substantiate the observations made above and to create an understanding of some of the consequences of the retail price inventory method.

### **The Retail Price Inventory Method: A Case Study**

#### *Introducing Arnotts Department Store*

Arnotts department store has been a prominent feature of departmental shopping in Ireland since its establishment in the 1840s. Located on one of Dublin's prime shopping streets, it has witnessed some revolutionary changes in the nature of the retail trade since its formation. Despite a public flotation as early as 1875, the store had, for most of the 20<sup>th</sup> century, been dominated by four generations of the one family: the Nesbitts. The situation was effectively that of a public company managed in an almost private capacity. The period under consideration here, 1930s-1940s, was a period dominated by the second and third generations of the Nesbitt family. Drawing upon interviews with the third generation of management and other retired staff members, staff memoirs and store archival material, we present a case study of the retail price inventory method in practical operation within this store. Table 1 contains a list of the key actors in the case.

**Table 1: Arnotts Department Store Staff**

|                 |                                |                     |
|-----------------|--------------------------------|---------------------|
| William Nesbitt | Managing Director              | 1925-1965           |
| Ronald Nesbitt  | Assistant to Managing Director | 1937-1948           |
|                 | Director                       | 1948-1951           |
|                 | Joint Managing Director        | 1951-1965           |
|                 | Managing Director              | 1966-1979           |
| Reginald Wilks  | Cost Accountant                | Jan 1939 - Sep 1939 |
| Michael O'Toole | Data Processing Manager        | 1946-1991           |
| John O'Sullivan | Finance Director               | 1962-1991           |
| Thomas Ryan     | Buyer - Readymades             | 1929-1948           |
| John Golden     | Buyer - Shoes                  | 1956-1990           |
| Michael O'Dwyer | Buyer - Men's Clothing         | 1947-1988           |

Prior to 1935, the Arnotts department store was organised in a manner similar to US stores preceding the 'scientific management revolution' described above. A departmental structure headed by buyers was used. No distinction was made between wholesale and retail trades and a 'federation of merchants' was an apt description of the firm's activities. As such, the buyers for each department were autonomous and had complete jurisdiction for sales and purchases in their own departments.

The organisational arrangements reinforced the buyer's autonomy since there was no separate receiving or marking department; buyers accepted delivery and priced their own purchases. Prior to 1938, the accounting system was based upon cost data. No record was maintained of the actual price marked on the goods and accounting data was constructed in the following manner (Nesbitt, 1993, p.93):

Stocks were held in the departments' account at cost to which was added the cost of incoming goods as invoices were passed from the buyer, and from which sales less  $16\frac{2}{3}\%$  were deducted [Arnotts's expected gross profit %], leaving the remaining stocks theoretically at cost price. If the rate of  $16\frac{2}{3}\%$  was less than

the real margin ... the book stock was over credited and extra gross profit emerged at the half-yearly stock-taking on 31 July and 31 January, but on the other hand if price reductions to dispose of goods brought the average margin below  $16\frac{2}{3}$  per cent, the stock turned out short by the books and showed less than the expected gross profit.

The data generated from this system was used to assess the performance of the buyers and to prepare financial statements. Reviews of buyers' performance took place at half yearly meetings and an example of the reports used at these meetings is contained in Figure 1.

Insert Figure 1

The report consists of performance for the current half year and the corresponding prior year by department. The departmental information is associated in each case with a buyer and this report formed the basis for an interview between the buyer and the Board of Directors. However, one of the main indicators of performance within this report, the under/over  $16\frac{2}{3}$  column, is not especially helpful. Its calculation simply involves comparing actual departmental gross margin with an expected total store gross margin of  $16\frac{2}{3}\%$ . Such a comparison is insensitive to the differing operating conditions of each department. As can be seen from Figure 1, a notable feature of the report is the substantial variations in gross margin and inventory turnover across departments. In addition, some of the departments conducted a mix of retail and wholesale business, yet the relative performance of each of these trades could not be distinguished. Management may have had suspicions that the

profitability of one trade was covering the losses of another, however, there was no viable evidence as only one total gross margin was reported for such mixed departments (Interview with Ronald Nesbitt). In terms of determining buyer performance therefore, this report format left the Board in a difficult position.

A buyer could make a gross profit that seemed too large to be believed or more often too small. When asked for an explanation the vaguest generalisations about poor weather<sup>3</sup> (in the clothing departments) or poor trade were offered. Management could only say 'let's hope you do better this season'; any other remedy involved removing that buyer from the job. (Nesbitt, 1993, p.95).

However, these meetings, and the reports, were an important governance device. Even in the absence of tangible information the reports were central to the ritual of the semi annual inquisition. Buyers were brought before the entire board of directors. When a buyer entered, William Nesbitt would ask Ronald Nesbitt 'who do we have here?'; it was a formidable experience for any buyer, experienced or otherwise (Interview with Michael O'Dwyer).

### *The Introduction of the Retail Price Inventory Method*

In 1937, Ronald Nesbitt joined Arnotts (his father was William Nesbitt, the managing director) and proposed the introduction of the retail price inventory method. Ronald Nesbitt had been employed in a London store where he had heard of the method. So his advocacy for its adoption in Arnotts could be viewed simply as a bandwagon effect. Other stores in Dublin had already introduced the method (Interview with



Ronald Nesbitt) and it was also being used in the UK<sup>4</sup>. A second explanation may have been the lacklustre performance of the firm. A review of trading performance from 1886-1933 is contained in Figure 2 and it is clear that performance since 1929 was poor. Net profit (in nominal pounds) had remained static, inventory turnover and gross profit margins had also declined.

Insert Figure 2

However, the desire to exert control over buying activities is also a potential explanation and one that appears quite plausible in this instance. As noted earlier, the existing inventory system based on cost data did not allow the identification of the relative profitability of the retail and wholesale components of a department.

In Arnotts, the 1930s seem to have been filled with management's attempts to re-establish control. William must have felt saddled with what seemed the Herculean labour of moving the cumbersome show firmly into the middle of the twentieth century. One particular uncertainty did cloud management's outlook: in most departments it could not distinguish the profits of retail trading from profits of wholesale trading, because the two trades were combined in one trading account. (Nesbitt, 1993, p.93).

The implementation of the retail price inventory method required the separation of selling departments into their respective wholesale and retail components. It therefore offered a visibility into the relative profitability of each

component of trade and hence into buying activities. In January 1939 an Englishman named Reginald Wilks was charged with implementing the new system.

The task of organising a new system of stock control was one beyond the limited resources of Arnotts' existing office staff. In January 1939, therefore, Reginald Wilks, whose patience fitted him for the task, had been asked to undertake this. Based on a system developed in London he designed all the books and dockets needed and the new method was put to work. (Nesbitt, 1993, p.95).

The employment contract between Arnotts and Reginald Wilks is shown in Figure 3. His official title was that of 'cost accountant', however, it is unclear as to whether or not Wilks was a professionally qualified accountant. Before commencing his contract with Arnotts he had efficiently managed an advertising agency owned by the Nesbitt family (Nesbitt, 1993, p.91).

Insert Figure 3

Within a few months of Ronald Nesbitt's appointment (November, 1938), resistance to the introduction of a new inventory system had emerged from the store buyers. They presented a 'round robin' letter (contains signatures written in a circular format so that no individual can be identified as a ring leader) to William Nesbitt in which they requested a meeting. The letter expressed their belief that Ronald Nesbitt was threatening to "ruin the company" (Nesbitt, 1993, p.101). Ronald Nesbitt's position as that of son of managing director provided him with some protection from

staff fury over the new regime (Interview with Ronald Nesbitt). Unfortunately, as Nesbitt recounts (Nesbitt, 1993, p.92), Reginald Wilks had no such protection and so did not receive the most generous of welcomes from his store colleagues:

On the day of the rugby international in 1939 [Reginald Wilks] was attacked by a group of men after nightfall near his hotel ... they were thought to have intended to tar and feather him ... after injuring one of [his] hands with some blunt instrument ... Poor [Reginald Wilks] had his hand bandaged and in a sling for some weeks and for quite a while afterwards was accompanied on all his comings and goings by an armed plainclothes policeman... One of [Arnotts's] buyers ... was accused by the police of organising the attack.

The accused buyer, Thomas Ryan, buyer for the Readymades department was subsequently acquitted. It is interesting to note that in the year prior to the attack (1938) the departmental report reveals a significant 'under' of £2,171 for Ryan's department.

This resistance to the introduction of the new accounting system in Arnotts appears warranted in light of buyers' reaction to the adoption of the method in the US noted earlier. It is all the more plausible given the existence of lateral linkages among buyers from different stores: buyers were likely to meet buyers from elsewhere at trade shows and fairs. The method was certainly perceived as an encroachment upon buyer autonomy. However, despite the initial resistance in Arnotts, ultimately the new system was introduced and had become fully incorporated into the reporting system by 1945. The new stock system operated in the following manner (Nesbitt, 1993, p.95):

Buyers had to mark their department's invoices with the prices at which they intended to offer goods for sale so that, having at one stock-taking listed the remaining stocks at cost and selling, it was possible to add incoming stocks at cost and selling to produce an average margin at which each department was attempting to trade. This margin could be applied to sales from month to month to produce, after adjustments for any reduction in price, a gross profit for the period ... Finally, stocks remaining after the Sales in July and January were listed at selling price and should have matched the stocks recorded at selling price in the office. To obtain stocks at cost for our accountants and auditors the average margins on sales were applied to bring the stocks to cost.

Reports prepared under the new system are contained in Figure 4. The 'over 16 $\frac{2}{3}$ %' column has now been replaced by 'shrinkage' which, as outlined above, reflects the difference between actual and book figures. In general, margins are higher in the retail departments, and there is now a column which reports the 'contribution' of each department. Ronald Nesbitt (Nesbitt, 1993, p.123) maintains that "clearly, this was a great step forward in control of those often over-mighty barons, the buyers".

Insert Figure 4

It is however arguable whether this new accounting system actually achieved any new control over the 'barons'; any additional control was probably illusory. The primary reason for this is that no separate and independent marking department was introduced in Arnotts and buyers continued to mark their own invoices. The absence

of a marking department means that any differences between book and actual are not necessarily due to spoilage or pilferage. This resulted in a number of problems.

Buyers could understate the expected mark up on a product and subsequently report positive shrinkage (William Nesbitt referred to this phenomenon as ‘cabbage’ at half yearly reviews – Interview with Michael O’Toole). Figure 4 reveals a significant number of the departments reporting positive shrinkage. Also, since buyers accepted delivery of inventory, they could misrepresent the actual quantity of items received and subsequently report positive shrinkage (Interview with John O’Sullivan). In addition, as buyers were responsible for passing purchase invoices to the accounts payable section, the processing of purchases could be delayed until items were sold - suppliers had little choice since they were dependent on the buyers for future purchases (Interview with Michael O’Toole). This ensured that the buyers could actively manipulate the timing of purchases recorded by the office, and consequently departmental reported profits.

What do the above results indicate for our understanding of the method and its role as a Foucauldian disciplinary device? Due to the absence of an independent marking department, the disciplinary potential of the retail price inventory method, as discussed in the Walsh & Jeacle (2003) study, failed to materialise in this particular case. As no independent record of markdowns was kept, the method yielded no insightful visibilities with regard to poor buying decisions. The hierarchical observation properties bestowed by the method in theory did not become manifest in practice within this case. The buyers did not necessarily become more disciplined, merely they became more innovative in their resistance to the method’s disciplinary power. However, this result does not undermine the disciplinary potential of the

method more generally. Rather it suggests that the disciplinary power of an accounting technique is tightly coupled with the organisational context in which it operates.

### *Consequences of the Method's Adoption*

If the system failed to exert any influence upon the autonomy of the buyers, what if any impact did it have? Clearly it gave rise to more intensive report production since it was now possible to compute monthly results without a physical inventory. It could be argued that this ensured that gross profit rates became more firmly entrenched in the minds of organisational participants. However, the new accounting system also resulted in departmental reports which segregated retail and wholesale performance. This is in many respects an important consequence of the retail price inventory method in this particular case organisation. In order to implement the method, it was necessary to segment retail and wholesale activities since they were likely to have significantly different rates of gross margin. “This separation did not necessarily increase sales, but it did reveal the more profitable nature of retail trading” (Nesbitt, 1993, p.93). It is this revelation which is significant. Our own analysis of the reports of the retail and wholesale trade in the seven mixed trading departments (readymades, woollens, hosiery, drapery, gloves, haberdashery, linens) within the store confirmed this situation. In all cases, gross margin percentages for retail exceeded gross margin percentages for wholesale during the period 1939-1957. Combined with a focus upon ‘contribution’ this ensured that the profitable nature of retail trading would influence management thinking for the following decades.

However, this focus upon gross margin rates ignores fixed costs. It is quite possible that fixed costs were higher for the retail operations and therefore that retail

was less profitable than wholesale in terms of net profitability. Nevertheless, despite the absence of strong evidence in favour of the profitability of the retail trade at the level of net profits, the firm adopted a strategy of expanding its retail operations. To conclude that the new reporting system was the cause of this strategy is premature, however, it certainly did provide rational grounds for believing that the retail business was the key to the firm's future success. In 1945-47, the firm recruited new buyers with sole responsibility for retail operations and eliminated departments with a mix (i.e. wholesale and retail) of business. The number of departments increased from 15 retail, 5 wholesale and 7 mixed in 1937 to 27 retail, and 16 wholesale departments by 1947. This ensured that the retail strategy became a self fulfilling prophecy since new buyers (untainted by the earlier resistance movement) were recruited to head these new departments. The creation of additional retail departments also resulted in new positions for women (1 female buyer in 1930, 4 female buyers by 1947) as wholesaling was considered a male bastion.

In summary, it would appear that the additional controls imposed by the introduction of the retail price inventory method were illusory. As such, the 'federation of merchants' unwittingly resisted the use of the retail price inventory method. This is not to say that innovative inventory management techniques did not emerge under the control of the buyers. Examples include the shoe department which implemented its own system of inventory replenishment; this involved the use of the labels from sold shoe boxes to form the basis of the department's orders to store warehouse (Interview with John Golden). However new organisational imperatives were an unanticipated consequence of the system. The reports confirmed what management wished to believe, that the retail business was more profitable than wholesale. This ensured that future development would be in retailing; new

departments were headed up with fresh compliant young staff. The old buyers were left within the graveyard which wholesale was eventually to become. An uneasy alliance therefore was struck between the barons (or buyers) and the titular king (William Nesbitt and Ronald Nesbitt).

### *A Comparison with the US Experience*

It is useful to consider some of the contrasts between the Walsh & Jeacle (2003) study of the method in the US and the experiences of our European case study department store. The retail price inventory method was rapidly embraced by US department stores during the 1920s (Friedman, 1929). While its introduction in our case study store in 1939 is more than a decade later than its widespread adoption in the US, this is not to suggest that the retail price inventory method was unknown in Europe. Indeed, the Walsh & Jeacle (2003) paper presents evidence to suggest the German origins of the method. Civil war in Ireland during the 1920s and factors peculiar to the circumstances of the case study store are more probable causes of any delay in the method's implementation. However, there is evidence to suggest that there was minimal discourse on the method in the UK in comparison to the US. There is a significant dearth of published material on this inventory valuation method in Europe – at least within English language publications. In contrast, the 1920s witnessed an explosion of US publications dedicated to the attributes of the method. In addition, the Controller's Congress, the annual meeting of US controller members of the NRDGA, regularly discussed the advantages of the method at their meetings.<sup>5</sup> Consultation of the archives of an equivalent European based association, the International Association of Department Stores, revealed no similar interest in the properties of the



method amongst European stores. However, it is important to be mindful of an observation by Boyns (1998) in relation to such comparators between the US and Europe. The plethora of US publications on scientific management generally may merely be indicative of a tendency of US managers to “trumpet their developments” (Boyns, 1988, p.263) more than their European counterparts.

Perhaps this lack of published material and rigorous discussion of the technical properties of the method was one reason why the Arnotts department store failed to establish a separate and independent marking room when it introduced the method. Was it the case that an insufficient knowledge of the method led Arnotts’s management to implement the method incorrectly? Alternatively perhaps the creation of an independent marking room, as a constituent element of the method’s operation, was a uniquely US phenomenon. Certainly, the Walsh & Jeacle (2003) study revealed that the installation of an independent marking room was a core component of the method’s operation in the US. It ensured that a buyer’s price markdowns were accurately recorded. This was one means of curbing the traditional power of the buyer and allowing for the rise to prominence of other store specialists such as the controller and merchandise manager. The European department store appeared to exhibit similar characteristics to its US counterparts up until the turn of the twentieth century.<sup>6</sup> However, perhaps the typical European department store, enveloped in a conservative class system and denied access to a complete range of consumer durables until post World War II, was slow to adopt the full rigours of the US system of scientific retail management. Further archival case studies of the retail price inventory method, and other such calculative devices, on both sides of the Atlantic would prove insightful in this regard.

### *A Comparison with Parallels in Production*

Before concluding this section, it is worthwhile to contrast the developments arising from our specific case within the retail arena to similar scientific management initiatives within the field of production.

Over the years, a number of eminent accounting scholars have studied the application of various scientific management principles within production. Miller & O'Leary (1987) investigated the development of standard costing initiatives within the US from a Foucauldian perspective whilst Hopper & Armstrong (1991) adopted a Marxist stance which viewed scientific management as a part of the managerialist apparatus for the deskilling of the work force. Boyns' (1998) investigations of the use of budgets and budgetary control practices in Britain reveal a situation that defies easy generalisation; the timing of their introduction and extent of their use within organisation varies greatly. Berland (1998) has similarly examined the development of budgetary control from a French perspective. His study indicated a slow diffusion of the practice amongst organisations with information networks playing an essential role for adopting organisations. More recently, Smith & Boyns (2005) have argued that a rather limited interpretation of scientific principles was adopted in Britain, one which focused predominantly on control through piecework.

What insights do these production related studies have for our understanding of scientific management within retailing? Certainly the issue of worker resistance to the introduction of a new work initiative is one common to both the arenas of production and retailing. As illustrated earlier, the buyers within our case store responded in a determinedly physical manner to the introduction of the retail price inventory method; an attack on the accountant was the ultimate consequence of this

resistance. Similarly, Whitston (1997) has comprehensively recounted the strikes and other forms of worker resistance which accompanied Taylorist managerial structures in production. Fleischman (2000) makes an interesting argument when considering the theoretical implications of such worker resistance. Whilst acknowledging that Taylorist principles can be viewed as Foucauldian in nature (as advocated by Miller & O’Leary (1987)), the issue of worker resistance, he argues, more easily fits within a Marxist stance (such as that adopted by Hopper & Armstrong (1991)). Therefore he suggests that both theoretical perspectives can offer insights into our understanding of scientific management practice in operation.

Fleischman (2000) raises another point pertinent to our comparison here. In relation to the actual adoption of scientific management practices, he observes a time delay which sees practice lagging well behind theoretical advances. This observation is made from the perspective of production. In relation to retailing, the time lag does not appear to be so prominent, at least within the US. Walsh & Jeacle’s (2003) study revealed that US store controllers were adopting and debating new managerial practices from the early 1920s. The existence of strong trade associations, such as the National Retail Dry Goods Association, may have contributed to the speedier uptake of scientific practices within retailing than within production. These national associations acted as powerful forums for the dissemination of new initiatives. This echoes Berland’s (1998) observations regarding the dissemination of budgetary controls in France; information networks, whether in the form of conferences, publications or personal contacts, appear to play a significant role in promoting scientific principles in both the production and retailing arenas.

Perhaps the most obvious observation that can be made from a comparison of the parallels between production and retailing is the relative lack of studies emanating

from within the retail camp. The extensive investigation of scientific management practices within production has allowed a number of observations to be drawn, even if it is simply to argue that generalisations cannot easily be made, as Boyns (1998) has remarked in relation to budgetary controls in Britain. Further archival work in the field of retailing is needed in order to make such pronouncements or to even detect where, if any, do the limited interpretations of scientific management in retailing reside (as Smith & Boyns (2005) observe in relation to production). This paper has merely examined the practical operation of one technique within one retail case organisation. Scientific management and retailing is a relative black hole within the accounting literature.

### **Concluding Remarks**

The last two decades have witnessed significant transformations in what has been traditionally considered as the scope of accounting history. New approaches have sought to stretch the boundaries of historical research beyond narrow parameters. New insights have provided an enriched understanding of the complex nature of the accounting craft. However, it is important that in the pursuit of further scholarly excellence within the field, 'old' methods are not rashly and thoughtlessly dismissed nor, as Mills (1993) cautions, that within the 'new' critical arena one theory, whether Foucauldian, Marxist or Economic Rationalist, is allowed to crudely trample the other. The Foucauldian perspective, is after all, merely one example of "the pluralization of accounting history" observes Stewart (1992, p.68). "Multiple approaches [he continues] are needed to ensure an undogmatic view of the history of accounting" (Stewart, 1992, p.69). In such a climate then, amongst proclamations for

diversity and recognition of alternative viewpoints, is it not ironic that accounting history within the realm of consumption has been so studiously ignored? Accounting has infiltrated the myriad aspects of everyday life (Hopwood, 1994) and it would also appear that consumption is an increasingly significant player in that everyday life (Maffesoli, 1997). If it is accepted that the Western world, at least, is dominated by a consumer culture, then the study of accounting practice within the realm of the consumer is a subject worthy of exploration. An important concern of our research to date has been with the second face of generic man: man as *consumer* rather than man as producer. We seek to highlight the importance of a holistic approach to an understanding of accounting technique rather than an emphasis upon particular elements of the world of production. Embracing a broader conception of the social world, beyond the confines of the factory floor, allows insights into the workings of the accounting craft within a new setting.

Our setting here has been the department store, an icon of consumer culture. The accounting technology we chose to study, the retail price inventory method, was merely one calculative strategy deployed by department store management to gain greater ‘scientific’ control over store operations.<sup>7</sup> It is perhaps a useful example of the numerous techniques which surrounded the scientific management movement and which became an inherent component of ‘fashionable’ management (Abrahamson, 1996). The retail price inventory method was essentially, within retailing circles, the management fad of its era. Defining a technique in such faddish terms is often accompanied by a tendency to dismiss its potency (Benders & Van Veem, 2001). However, as Mueller & Carter (2005) have observed, it is too simplistic a perspective to dismiss such techniques as mere rhetoric. Implemented correctly, this apparently simple method of inventory valuation became a powerful tool in the hands of

management. The Walsh & Jeacle (2003) study, applying a Foucauldian theoretical framework, discussed the disciplinary potential of the method's employment in creating visibilities not previously witnessed and in so doing recasting the dominant position of departmental buyer. It observed the controller's rise to prominence alongside the demotion of the buyer.

Our examination of the method in practical operation here however, has illustrated no display of disciplinary power in this regard. This was primarily due to the fact that the case organisation failed to properly implement the full rigours of the method: a separate marking room. Consequently, the new reports generated under the system revealed no necessarily insightful eye into departmental operations and consequently the Foucauldian surveillance potential of the technique was never fully embraced. However, regardless of its operational failure in this regard, the method's implementation in our case study provides no less evidence of how accounting technique is intertwined with the organisational. The genealogy of calculation (Miller & Napier, 1993) which has been recounted within this study may contribute to an established body of work on the organisational context of accounting. We attempted to examine a single accounting technique in the making, the retail price inventory method. The case study examination reveals a technique continuously "becoming what it was not" (Hopwood, 1987: 207). The unanticipated outcome of the retail price inventory method's adoption in this case was the identification of the retail component (as opposed to wholesale component) of the trade as the most profitable part of the business. This led to a strategic decision to expand retail as compared to wholesale operations. The wholesale business contained the 'old resistant' buyers whilst the newly created retail departments were staffed by new recruits. In this way, management was able to gradually shift the power basis amongst buyers from the old

and resistant to the new and more flexible. Its initial deployment as a technique to undermine buyers was never fully realised due to the lack of an independent marking department. Instead it imbued store management with a concern with gross profit rates and led to the subsequent identification of the retail trade as a strategic choice. Its unanticipated outcome became the justification for a shift in strategic direction – it became what it was not.

The retail price inventory method was orchestrated with an organisational innovation (the creation of departments with especial responsibility for receiving and marking goods). The case described was one where there was a manifest failure to realise the surveillance potential of the retail price inventory method due to the failure to recognize the orchestrated character of accounting systems. The case illustrates how viewing accounting technique as a black box pre-empts opportunities to identify the elements of the orchestra and how accounting operates upon its context.

## Notes

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<sup>1</sup> For an insight into the role of the department store in the creation of a consumer culture, see: Chaney, 1983; Featherstone, 1991; Ferguson, 1992; Finkelstein, 1991; Glennie, 1995; Laermans, 1993; McCracken, 1988; Nava, 1995.

<sup>2</sup> For a history of the retail practices of the early US department store see: Appel, 1930; Hower, 1943; Klassen, 1992; Leach, 1984 and 1993; Mahoney, 1955; Resseguie, 1964; Twyman, 1954.

<sup>3</sup> The use of weather reports to explain trading performance was a common procedure. For example, the sales records of one US department store in 1902 contain a weather diary alongside the daily sales results. Source: C.F. Hovey Collection, Mss 776, H846, V5, Historical Collections, Baker Library, Harvard Business School.

<sup>4</sup> Our previous research on the retail price inventory method included a consultation of the archival records of the London stores Harrods and Selfridges, both of which used the method.

<sup>5</sup> The minutes of meetings of the Controllers Congress are held at the Baker Library, Harvard University.

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<sup>6</sup> For a history of the European department store see: Adburgham, 1964; Alexander, 1970; Corina, 1978; Crossick & Jaumain (Eds.) (1999); Davis, 1966; Fraser, 1981; Jefferys, 1954; Miller, 1989; Moss & Turton, 1989; Rappaport, 1993; Williams, 1982; Zola, 1992.

<sup>7</sup> Other new techniques included consumer credit controls (Jeacle and Walsh, 2002) and departmental overhead allocation (Jeacle, 2003).



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## Figures

- Figure 1      Arnotts's half yearly departmental trading sheet - cost basis
- Figure 2      Arnotts's summary of trading performance 1886-1933.
- Figure 3      Employment contract between Arnotts and cost accountant (Reginald Wilks)
- Figure 4      Arnotts's half yearly departmental trading sheet 1945 - retail basis